Pharmacy Cost Parameters: Dispensing and Drug Acquisition Costs

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DHFS Pharmacy Reimbursement Commission Meeting

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Goals:

1. Highlight DHFS 2002 study findings
2. Update cost estimates
3. Provide other marketplace parameters and insights

1. DHFS Study Topic & Goals

Cost of dispensing - what is the average cost of dispensing a prescription among pharmacies in Wisconsin?

Acquisition cost - how do purchase costs of pharmaceuticals relate to reference prices (i.e., actual acquisition cost (AAC) vs. average wholesale price (AWP) - percent “discount”

Results intended to inform rate setting for pharmacy payment/reimbursement in Medicaid program.

DHFS Cost of Dispensing Study Findings

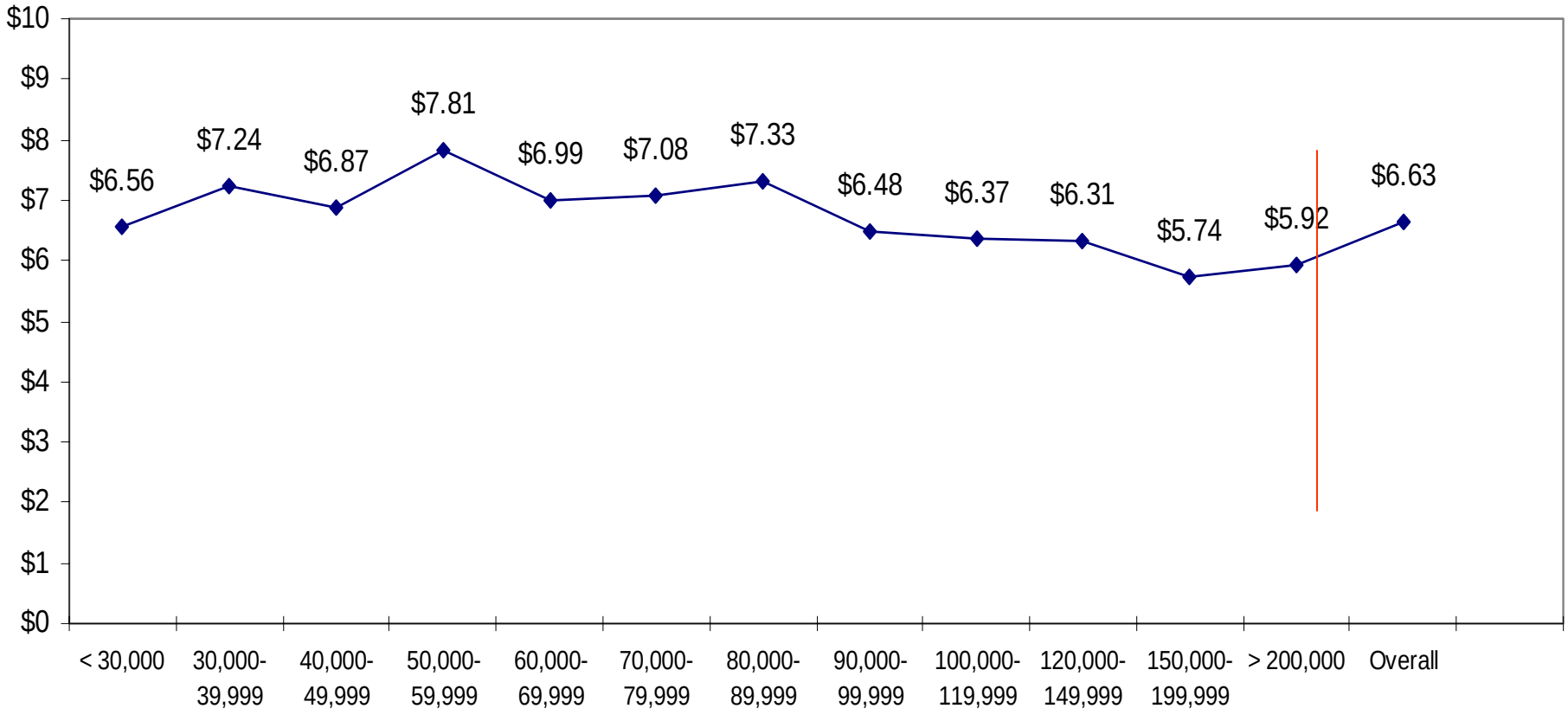
Overall (N=185)	$6.972
<5,>10 excluded (N=167)	$6.846
<4.5,>10 excl (N=149)	$6.627

Overall range = $3.96 to $17.49; std. dev.= $2.07

Calculations based on data from FY ending in 2000.

Results include independent, chain, and mass merchandiser pharmacies.

Cost of Dispensing by Prescription Volume



Excludes extreme values < $4.50 and > $10.00

Updating DHFS Study Results

	2000 Actual*			2005 Estimated		
	Sal/RX	Oth/RX	Total	Sal/RX	Oth/RX	Total
All	3.983	3.025	7.008	5.587	3.389	8.976
Outliers1	3.780	2.859	6.638	5.301	3.203	8.504
Outliers2	3.859	3.004	6.863	5.413	3.365	8.778

Outliers 1 = <4.5,>10 excl.; Outliers2 = <5,>10 excl.

* Data points w/o salary detail excluded; N=6 excluded

Estimated using 7.0% per annum growth rate for salaries, 2.3% per annum for other expenses.
7.0% per annum growth rate from 1999 - 2003 WI RPh Compensation Surveys;
2.3% per annum growth rate is average annual growth in the CPI, all items, from the BLS

Updating DHFS Study Results

2005 Estimated				**2006 Estimated**				**2007 Estimated**		
Salry	Other	COD		Salry	Other	COD		Salry	Other	COD
$5.59	$3.39	$8.98		$5.98	$3.47	$9.45		$6.40	$3.55	$9.94
$5.41	$3.37	$8.78		$5.79	$3.44	$9.23		$6.20	$3.52	$9.72
$5.30	$3.20	$8.50		$5.67	$3.28	$8.95		$6.07	$3.35	$9.42

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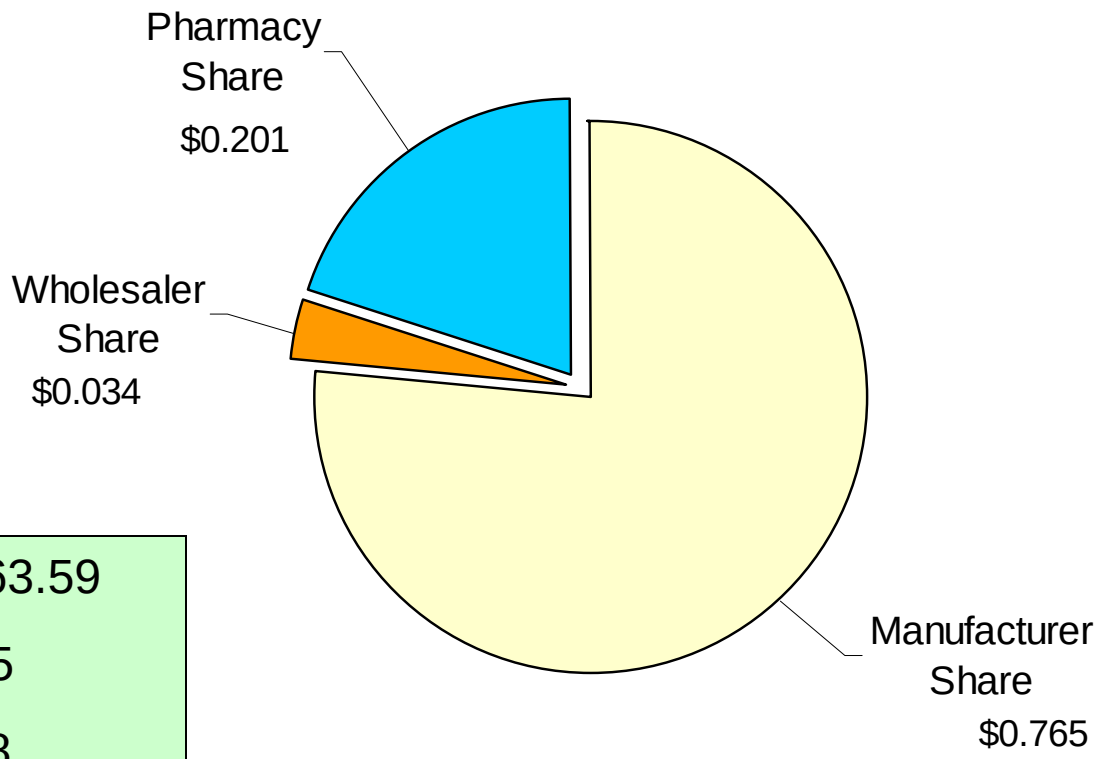
Other Marketplace Parameters

Distribution of a Dollar of Revenue from a Retail Prescription, 2004



Average RX Price = $63.59

Manufacturer: $48.65

Wholesaler: $2.18

Pharmacy: $12.77

Source: National Association of Chain Drug Stores, nacds.org, data for 2004

Extrapolating a Cost Estimate - National Marketplace Parameters

Average RX Price = $63.59

Manufacturer: $48.65

Wholesaler: $2.18

Pharmacy: $12.77

Gross Margin ($12.77 = cost of dispensing + profit)

"Reasonable" profit (?) = 5%, then,

$63.59 * 0.05 = $3.18 (profit);

COD = GM less profit = $12.77 - $3.18 = $9.59

DHFS Study Results: Drug Acquisition Costs

Type of Drug	**Wholesaler 1** Avg. % Discount (Range)	**Wholesaler 2** Avg. % Discount (Range)	**Wholesaler 3** Avg. % Discount (Range)
Single-Source (Brand Name)	17.46% (14.57 - 26.18) N=199	17.54% (14.15 - 24.10) N=145	17.23% (12.50 - 23.67) N=169
Multiple-Source Innovator (Brand Name)	17.64% (14.99 - 26.07) N=94	17.71% (14.16 - 26.24) N=39	18.13% (12.48 - 32.41) N=82
Brand Name (SS & MSI Combined)	17.52% (14.57 - 26.18) N=293	17.58% (14.15 - 26.24) N=184	17.52% (12.48 - 32.41) N=251
Multiple-Source Generic	76.16% (22.60 - 98.79) N=192	75.34% (14.29 - 98.40) N=91	74.44% (10.97 - 98.21) N=154

Data for January 2001

Modal values: Brand name @ 15-17%, and 19-20%; Multiple-source generics @ 70+%

Acquisition Cost Study Updates/Marketplace Parameters

AWP vs. AAC: Percent off AWP = AAC

Brand Name (N=453): 21.31%

Range: 17.03 - 40.79

Std Dev.: 1.44%

Modal: 21.2 (11 < 21.1%; 6 > 22.5%)

Generic Name (N= 339): 77.24%

Range: 31.95 - 98.66

Std Dev.: 16.34%

Modal: ??

Calculations based on data accessed November 2005, from buying group web site.

Estimating Proposed Changes - Impact

Formula changes from AWP less 13% to AWP less 16%.

Average Brand RX price = $96.01

Less average margin ($12.77)

Cost of drug dispensed = $83.24

If AAC = AWP less 21%, then AWP = $105.36

3% of AWP at $105.36 AWP = $3.16

= average amount of ingredient payment cost reduction

(Plus, $1.00 for each dispensed prescription from dispensing fee reduction)

Data from National Association of Chain Drug Stores, web site (www.nacds.org), data for 2004.

RELEVANT QUESTIONS

What are Medicaid prescription payment goals?

What is the role of accurate cost information?

How can the State ensure they are a prudent purchaser?

IDEAS

Establish accurate drug acquisition cost payment mechanism. Electronic funds transfer technology?

Establish accurate, cost-based dispensing fee. Market based/ linked to market parameters?

Continue efforts for "big ticket" item savings opportunities.

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